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M1043/004

April 15, 1991

TO: Wayne Hedberg, Minerals Permit Supervisor

FROM: Steve Schneider, O&G Audit Manager *Steve*

RE: 1990 Utelite Financial Statements

I have reviewed the 1990 Utelite financial statements prepared by Lynn M. Carlson & Co., and offer the following comments for your consideration:

Based on my notes from the January, 1990 Board briefing, I believe Utelite has met only two of the Board's three requirements for financial performance.

- The December, 1990 ratio of current assets to current liabilities was not maintained at the December 31, 1988 level. This ratio decreased from 9.61 at December 31, 1988 to 8.46 for December, 1990, as shown on the attached Utelite Financial Ratio Review.
- The December, 1990 ratio of total liabilities to net worth was maintained at the December 31, 1988 level. This ratio is now at .07, an improvement from .08 at December 31, 1988.
- The 1990 financial statements were delivered to the division by the established due date.

As you are aware, the Board established special financial ratio requirements upon Utelite since their original self-bond request did not meet previously established standards for this type of bonding. A review of Utelite's current performance versus the original self-bond standards is as follows.

- Utelite's fixed assets have improved from \$603,208 in 1988 to \$973,650 in 1990, however this category still falls short of the \$20 million original standard.
- Utelite's tangible net worth has increased from \$1,030,746 in 1988 to \$2,077,873, however this category is below the \$10 million original standard.

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- The financial statements submitted to the division again are based on a review by a CPA, not an audit in accordance with generally accepted auditing standards. Thus, the division and the Board continue to accept a higher level of risk associated with the integrity of the financial statements. As the director advised the Board in January 1990, this risk is the same as that being assumed by the Office of Surface Mining who accepts a CPA review, unless the company is publicly traded.
- The financial statements submitted to the division are on an income tax basis again this year, versus generally accepted accounting principles. As I advised your section regarding the 1988 statements, Utelite's non-conformance with GAAP doesn't appear to materially impact the financial statements and ratios which our division desires to track.
- Utelite previously did not submit financial statements for the five previous years. A comparison of 1988, 1989, and 1990 financial results is now attached. As we add more years, our ability to identify trends and extraordinary account activity will increase.

While Utelite's current ratio (current assets divided by current liabilities) has decreased, this does not mean that Utelite is now in a poor financial condition. Their current ratio still exceeds the normal standard of 1.2, and net income was up 81.1% this past year.

The reduction in the current ratio appears to be directly related to the increase in accounts payable. It may be beneficial for Utelite to appear at the Board briefing to explain this increase in current liabilities.

Please let me know if you have further questions.

Idc
Attachment
cc: R.J. Firth
WOI185

4/12/91

Utelite Financial Ratio Review

	12/31/88	12/31/89	12/31/90
Cur Assets/Cur Liab	9.61	12.39	8.46
Normal std of 1.2 or greater			
Board req'd 12/88 maintained			
Total Liab/Net Worth	0.08	0.04	0.07
Normal std of 2.5 or less			
Board req'd 12/88 maintained			
Fixed Assets	\$603,208	\$711,737	\$973,650
Normal std of \$20 million			
Board did not require			
Tangible Net Worth	\$1,030,746	\$1,601,482	\$2,077,873
Normal std of \$10 million			
Board did not require			
Net Income	\$66,018	\$474,664	\$859,584
For information only			

	12/31/88	12/31/89	12/31/90	'90 vs '89	% Diff
Cash	278,293	425,266	634,310	209,044	49.2%
Trade Acct Rec	306,792	417,850	369,024	(48,826)	-11.7%
Acct Rec - Western Clay	9,660	0	0	0	0.0%
Employee Acct Rec	230	864	283	(581)	-67.2%
Mat'l in Process	124,333	2,100	168,674	166,574	7932.1%
Notes Rec - Current	31,123	4,490	6,978	2,488	55.4%
Notes Rec Sharehldr - Cur	0	17,344	17,344	0	0.0%
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Total Cur Assets	750,431	867,914	1,196,613	328,699	37.9%
Land	84,789	19,991	31,791	11,800	59.0%
Buildings	168,503	182,366	272,826	90,460	49.6%
Plant Mach & Equip	1,845,927	2,045,240	2,022,675	(22,565)	-1.1%
Pollution Control Eq	178,357	178,357	232,183	53,826	30.2%
Machinery	520,390	553,748	718,435	164,687	29.7%
Autos, Trks, Trailers	66,954	71,598	74,116	2,518	3.5%
Office Equip	34,863	38,184	48,361	10,177	26.7%
Less Accum Deprec	(2,296,575)	(2,377,747)	(2,426,737)	(48,990)	2.1%
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Total Prop & Equipmt	603,208	711,737	973,650	261,913	36.8%
Notes Receivable	49,120	0	0	0	0.0%
Notes Rec - LT	0	27,937	23,392	(4,545)	-16.3%
Notes Rec Sharehldr - LT	0	56,162	20,242	(35,920)	-64.0%
Other	13	0	0	0	0.0%
Performance & Pymt Bond	0	7,798	5,439	(2,359)	-30.3%
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Total Other Assets	49,133	91,897	49,073	(42,824)	-46.6%
TOTAL ASSETS	1,402,772	1,671,548	2,219,336	547,788	32.8%
Cur Portion of LT Debt	75,000	5,000	0	(5,000)	-100.0%
Accounts Payable	1,352	63,381	134,684	71,303	112.5%
Accrued Payroll Tax	1,377	1,518	6,779	5,261	346.6%
Accrued Interest Payable	335	168	0	(168)	-100.0%
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Total Cur Liab	78,064	70,067	141,463	71,396	101.9%
Long Term Debt	5,000	0	0	0	0.0%
Def Gain on Invol Conv	288,962	0	0	0	0.0%
Common Stock	164,758	164,758	164,758	0	0.0%
Premium on Cmn Stk	56,367	56,367	56,367	0	0.0%
Treasury Stock	(55,443)	(55,443)	(55,443)	0	0.0%
Retained Earnings	865,064	1,435,800	1,912,191	476,391	33.2%
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Stockholders Equity	1,030,746	1,601,482	2,077,873	476,391	29.7%
TOT LIAB + NET WTH	1,402,772	1,671,549	2,219,336	547,787	32.8%

	12/31/88	12/31/89	12/31/90	90 vs '89	% Diff
Sales	2,370,007	3,364,407	4,246,352	881,945	26.2%
Inventory Adjmt	326,830	122,233	(166,574)	(288,807)	-236.3%
Purchases	2,968	889	0	(889)	-100.0%
Direct Labor	393,700	513,145	634,729	121,584	23.7%
Plant Power & Util	79,673	98,787	98,433	(354)	-0.4%
Kiln Fuel	178,927	248,262	430,273	182,011	73.3%
Delivery Exp	595,364	1,072,283	1,365,242	292,959	27.3%
	0	0	9,024	9,024	0.0%
Supplies	15,972	23,624	23,888	264	1.1%
Repairs & Maint	143,342	197,428	252,270	54,842	27.8%
Fuel & Oil	26,261	44,695	44,414	(281)	-0.6%
Raw Material Royalties	15,562	18,023	17,918	(105)	-0.6%
Lab & Testing	3,602	3,602	4,910	1,308	36.3%
MSHA	327	260	0	(260)	-100.0%
Total Cost of Sales	1,782,528	2,343,231	2,714,527	371,296	15.8%
Marketing & Promo	97,308	6,571	10,089	3,518	53.5%
Advertising	0	7,546	15,511	7,965	105.6%
Employee Benefits	57,342	78,109	85,231	7,122	9.1%
Payroll Taxes	36,621	51,911	71,227	19,316	37.2%
Travel & Sales	7,161	17,726	16,468	(1,258)	-7.1%
Insurance	8,637	9,265	10,205	940	10.1%
Telephone	7,235	12,986	13,217	231	1.8%
Legal & Prof	10,928	18,111	48,955	30,844	170.3%
Office Supplies & Postage	9,805	18,082	13,684	(4,398)	-24.3%
Taxes & License	20,189	21,831	24,675	2,844	13.0%
Auto Allowance & Exp	0	14,212	10,562	(3,650)	-25.7%
Misc & Bank Charges	796	791	3,785	2,994	378.5%
Bad Debts	1,055	6,860	895	(5,965)	-87.0%
Dues, Subscriptions	931	6,894	8,179	1,285	18.6%
Training	446	3,127	5,543	2,416	77.3%
Depreciation	223,431	211,006	250,367	39,361	18.7%
Mgmt & Accounting	4,631	9,705	7	(9,698)	-99.9%
Rent	0	4,753	5,121	368	7.7%
Air Pollution Control	6,800	2,572	3,952	1,380	53.7%
ESCSI	7,690	11,963	10,183	(1,780)	-14.9%
Depletion	18,120	75,077	106,370	31,293	41.7%
Total Adm Expenses	519,126	589,098	714,226	125,128	21.2%
Interest & Div Income	18,808	30,310	42,077	11,767	38.8%
Gain (Loss) on Asset Sale	(5,592)	14,892	150	(14,742)	-99.0%
Interest Expense	(15,551)	(2,616)	(242)	2,374	-90.7%
Total Income (Exp)	(2,335)	42,586	41,985	(601)	-1.4%
NET INCOME	66,018	474,664	859,584	384,920	81.1%